NORWAY

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise noted)

	1996	1997	1998 1/
Income, Production and Employment:			
Nominal GDP	156,932	152,787	153,200
Real GDP Growth (pct) 2/	5.5	3.4	2.5
Real Mainland GDP Growth (pct)	4.1	3.7	3.0
Nominal GDP By Sector:			
Agriculture	3,408	3,053	2,900
Oil And Gas Production	23,759	22,715	22,900
Manufacturing	17,756	17,280	17,500
Services	87,830	86,243	86,300
Government	24,179	23,495	23,600
Per Capita GDP (US$)	33,570	35,930	34,559
Labor Force (000s)	2,239	2,285	2,325
Unemployment Rate (pct)	4.9	4.1	3.3
Money and Prices (annual percentage growth):			
Money Supply (M2)	4.8	4.6	5.0
Consumer Price Inflation	1.3	2.6	3.3
Exchange Rate (NOK/US$ annual average)	6.5	7.1	7.6
Balance of Payments and Trade:			
Total Exports FOB	49,250	48,228	41,000
Exports to U.S. 3/	3,488	2,846	2,550
Total Imports CIF	35,342	35,526	39,500
Imports from U.S. 3/	2,366	2,369	2,600
Trade Balance	13,908	12,702	2,500
Balance With U.S.	1,122	477	-50
External Public Debt	6,531	2,985	500
Debt Service Payments	2,838	3,605	2,318
Fiscal Surplus/GDP (pct)	4.6	6.5	2.7
Current Account Surplus/GDP (pct)	7.1	5.2	0.1
Foreign Exchange Reserves 4/	26,205	24,135	23,400
Aid From U.S.	0	0	0
Aid From Other Countries	0	0	0

1/ 1998 figures are all estimates based on monthly data in November.
2/ Growth figures are calculated on the basis of the local currency.
3/ Norwegian foreign trade statistics. Exports exclude Norwegian oil shipped to the U.S. from terminals overseas.
4/ Includes gold; excludes petroleum fund assets.

1. General Policy Framework

Exploitation of Norway's vast energy resources -- notably oil, gas, and hydropower -- will continue to drive the country's economic growth for at least the next two decades. Offshore, Norway's remaining oil reserves will last for another 26 years at current extraction rates, while the equivalent figure for natural gas is 132 years. Energy-intensive industries such as metal processing and fertilizer production will remain prominent on the mainland due to the availability of abundant hydropower.

Some constraints continue to limit Norway's economic flexibility and ability to maintain international competitiveness. Labor availability remains limited by Norway's small 4.4 million population and a restrictive immigration policy. Norway is also a high-cost country with a centralized collective wage bargaining process and generous government-provided social welfare benefits. Norway’s inefficient agricultural sector survives largely through subsidies and protection from international competition.

State intervention in the economy remains significant. The government owns just over 50 percent of domestic businesses, including majority stakes in the two largest oil and industry conglomerates and the two largest commercial banks. While new legislation governing investment was implemented in 1995 to meet European Economic Area (EEA) and World Trade Organization (WTO) obligations, screening of foreign investment and restrictions on foreign ownership remain. The government's dependence on revenues from the oil and gas sector is significant, accounting for an estimated 16 percent of total government 1998 revenue. Since 1995, Norway has been a net foreign creditor and has posted budget surpluses. The surpluses are invested in a petroleum fund for future use.

No general tax incentives exist to promote investment, although tax credits and government grants are offered to encourage investment in northern Norway. Several specialized state banks provide subsidized loans to sectors including agriculture and fishing. Transportation allowances and subsidized power are also available to industry. Norway and the EU have preferential access to each other’s markets, except for the agricultural and fisheries sectors, through the EEA agreement which entered force in January 1994. Although Norway declined to join the EU following a national referendum in 1994, it routinely implements most EU directives as required by the EEA.

2. Exchange Rate Policy

Norwegian monetary policy is governed by an exchange rate target against other European currencies. The central bank uses interest rate policy and open market operations to keep the currency stable in a managed float which follows a range of values defined in the Exchange Rate Regulation. Responding to significant downward pressure on the krone in the first three quarters of 1998, the central bank increased key interest rates on five occasions for a total of 3.75 percentage points. As a result, from August until mid-November, the deposit and overnight lending rates were, respectively, 8 percent and 10 percent. In August, the central bank allowed the krone to float outside the normal range. Lower world oil prices and economic turbulence in Asia and Russia contributed to the krone's depreciation against European currencies.

Quantitative restrictions on credit flows from private financial institutions were abolished in the late 1980's. Norway dismantled most remaining foreign exchange controls in 1990. U.S. companies operating within Norway have never reported problems to the embassy about remitting payments.

3. Structural Policies

The government's economic priorities include maintaining high employment, generous welfare benefits, and rural development. These economic priorities are part of Norway's regional policy of discouraging internal migration to urban centers in the south and east and of maintaining the population in the north and other sparsely populated regions. Thus, parts of the mainland economy -- particularly agriculture and rural industries -- remain protected and cost-inefficient from a global viewpoint with Norway's agricultural sector remaining the most heavily subsidized in the OECD. While some progress has been made in reducing subsidies in the manufacturing industry, support remains significant in such areas as food processing and shipbuilding.

A revised legal framework for the functioning of the financial system was adopted in 1988, strengthening competitive forces in the market and bringing capital adequacy ratios more in line with those abroad. Further liberalization in the financial services sector occurred when Norway joined the EEA and accepted the EU's banking directives. The Norwegian banking industry has returned to profitability following reforms prompted by the banking crises in the early 1990's.

Norway has taken some steps to deregulate the non-bank service sector. While large parts of the transportation and telecommunications markets remain subject to restrictive regulations, including statutory barriers to entry, the government opened telecommunications services to competition in 1998.

4. Debt Management Policies

The state's exposure in international debt markets remains very limited because of Norway's prudent budgetary and foreign debt policies. The government's gross external debt situation significantly improved in the 1990s, declining from about $10 billion in 1993 to about $3 billion at the end of 1997, and has continued to fall in 1998. Norway changed from a net debtor to a net creditor country in 1995 largely because of the contributions from the oil and gas sector. As mentioned above, Norway has accumulated large budget surpluses from oil revenue which are transferred to the State Petroleum Fund (SPF) for investment abroad. The SPF serves several purposes: it insulates the domestic economy from conditions in the oil market, reduces current consumption and specialization of the non-oil economy into domestic consumption, and preserves some oil revenue for future generations.

5. Significant Barriers to U.S. Exports

Norway is a member of the WTO and supports the principles of free trade but significant barriers to trade remain in place. The government maintains high agricultural tariffs which are administratively adjusted when internal market prices fall outside certain price limits. These unpredictable administrative tariff adjustments disrupt advance purchase orders and severely limit agricultural imports into Norway from the United States and other distant markets.

State ownership in Norwegian industry continues to raise competitive issues in a number of sectors including telecommunications, financial services, and oil and gas. Despite some ongoing reforms, Norway still maintains regulatory practices, certification procedures and standards that limit market access for U.S. materials and equipment in a variety of sectors, including telecommunications and oil and gas materials and equipment. U.S. companies, particularly in the oil and gas sector, operate profitably in Norway.

While there has been substantial banking reform, competition in this sector still remains distorted due to government ownership of the two largest commercial banks, and the existence of specialized state banks which offer subsidized loans in certain sectors and geographic locations.

Restrictions also remain in the distribution of alcoholic beverages, which historically has been handled through a state monopoly, and in the way pharmaceutical drugs are marketed. Norway is obligated to terminate monopolies under the EEA Accord but implementation has been slow. The European Free Trade Association (EFTA) Surveillance Agency (the organization responsible for insuring EEA compliance) has been monitoring Norway's progress in these areas.

6. Export Subsidies Policies

As a general rule, the Norwegian government does not subsidize exports, although some heavily subsidized goods, such as dairy products, may be exported. The government indirectly subsidizes chemical and metal exports by subsidizing the electricity costs of manufacturers. In addition, the government provides funds to Norwegian companies for export promotion purposes. Norway is reducing agricultural subsidies in stages over six years in line with its WTO obligations. Norway has also ratified the OECD shipbuilding subsidy agreement and has indicated it will eliminate shipbuilding subsidies as soon as the agreement is ratified by other major shipbuilders.

7. Protection of U.S. Intellectual Property

Norwegian intellectual property practices do not adversely affect U.S. trade. Norway is a signatory of the main intellectual property accords, including the Berne Copyright and Universal Copyright Conventions, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty.

Norwegian officials believe that fighting counterfeiting and piracy are the most important aspects of intellectual property rights protection. They complain about the unauthorized reproduction of furniture and appliance designs and the sale of the resultant goods in other countries, with no compensation to the Norwegian innovator.

Product patents for pharmaceuticals became available in Norway in January 1992. Previously, only process patent protection was provided to pharmaceuticals.

8. Worker Rights

a. Right of Association: Workers have the right to associate freely and to strike. The government can invoke compulsory arbitration under certain circumstances with the approval of parliament.

b. The Right to Organize and Bargain Collectively: All workers, including government employees and the military, have the right to organize and to bargain collectively. Labor legislation and practice is uniform throughout Norway.

c. Prohibition of Forced or Compulsory Labor: Forced labor is prohibited by law and does not exist.

d. Minimum Age for Employment of Children: Children are not permitted to work full time before age 15. Minimum age rules are observed in practice.

e. Acceptable Conditions of Work: Ordinary working hours do not exceed 37.5 hours per week, and 4 weeks plus one day of paid leave are granted per year (31 days for those over 60). There is no minimum wage in Norway, but wages normally fall within a national wage scale negotiated by labor, employers, and the government. The Workers' Protection and Working Environment Act of 1977 assures all workers safe and physically acceptable working conditions.

f. Rights in Sectors with U.S. Investment: Norway has a tradition of protecting worker rights in all industries, and sectors where there is heavy U.S. investment are no exception.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		4,272
Total Manufacturing		757
Food & Kindred Products	(1)	
Chemicals & Allied Products	16	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	54	
Electric & Electronic Equipment	5	
Transportation Equipment	16	
Other Manufacturing	(1)	
Wholesale Trade		289
Banking		(1)
Finance/Insurance/Real Estate		500
Services		216
Other Industries		(1)
TOTAL ALL INDUSTRIES		6,262

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.